

THE HANDBOOK OF GLOBAL OUTSOURCING AND OFFSHORING

ILAN OSHRI, JULIA KOTLARSKY
AND LESLIE P. WILLCOCKS



Palgrave, London
Publication date: September 1st 2009

Synopsis of the Book

By end of 2009, Information Technology outsourcing (ITO) revenues exceeded \$US 250 million while those for business process outsourcing were more than US\$ 140 billion. The revenues from offshore outsourcing of business and Information Technology (IT) services exceeded US\$ 60 billion, and over the next five years the compound annual growth rate for offshore outsourcing is expected to be about 20%. By 2006, over 200 firms from the Forbes 2000 companies and nearly 50% of the Fortune Global 250 had offshored IT and business process activities. In 2008 India posted some 65% of the ITO and 43% of the Business Process outsourcing (BPO) market (Willcocks and Lacity, 2009). It is common to talk of Brazil, Russia, India and China as the BRIC inheritors of globalisation, offering both offshore IT and back-office services, and also, with their vast populations and developing economies, huge potential markets. In 2008 India exported US\$ 40 billion of such services, while China, Russia, and Brazil managed US\$ 5 billion, US\$ 3.65 billion, and US\$ 800 million respectively. But the phenomenon of offshoring and offshore outsourcing is certainly expanding, with, on our count, some 120 centres developing around the world. Therefore it has become increasingly important to understand the phenomenon, not least as a basis for suggesting what directions it will take, its impacts, how it has been conducted, and how its management can be better facilitated.

These points are particularly pertinent because recent evidence has suggested that a number of offshore outsourcing relationships and offshoring projects have failed to live up to some of their promises. The reasons for this are many, ranging from poor quality delivered by vendors to rising management costs that result in frustration and disappointment. Collaboration between remote sites and the ability to share and transfer knowledge between dispersed teams have also been mentioned as imperative to successful offshore outsourcing projects. In addition, our own research highlights certain capabilities that vendors and clients should develop, the governing structures that they need to put in place, and the bonding activities that they need to promote and make time for. While offshore outsourcing brings its own distinctive issues, it is the case that the principles for running any ITO/BPO venture also continue to apply to offshoring and offshore outsourcing arrangements. However, offshoring is increasingly part of most deals of any significant size, so it becomes very necessary to see and manage outsourcing within a global context.

The Main Objectives of this Book

Therefore, this book offers a broad perspective on various issues relating to the sourcing of systems and business processes in a national and global context. The key objectives of the book are to:

1. assess the impacts of global sourcing on business;
2. assess the risks and benefits for the firm from engaging in sourcing activities;
3. devise a plan to outsource a system or a process from a client viewpoint;
4. devise a plan to offer services from a vendor viewpoint;
5. ensure sustainability over the lifecycle of an outsourcing relationship;
6. raise awareness to recent developments in the global sourcing arena.

This book examines both the client's and the vendor's involvement in sourcing relationships by emphasizing not only on the capabilities that each side should develop prior to entering a relationship but also that they should develop as a result of their interactions with each other.

Key definition: Sourcing

The field of sourcing is replete with jargon and acronyms. For example, the term “bestshoring” has become one of the recent “buzz” words which, while widely used by managers, are poorly defined by the professional press or academic publications. Even more worrying is the inaccurate use of the terms “outsourcing” and “offshoring” by both managers and academics. These terms and others will be defined in Chapter 1. Here we wish to explain what we mean by the term *sourcing*.

Sourcing is the act through which work is contracted or delegated to an external or internal entity that could be physically located anywhere. Sourcing encompasses various in-sourcing and outsourcing arrangements such as offshore outsourcing, captive offshoring, nearshoring and onshoring.

Clearly, almost any firm is somehow engaged in sourcing activities; however, each of these firms applies a sourcing arrangement that suits its particular needs.

The Structure of the Book

The book is organized into 10 chapters to address the aims outlined above. We distinguish three key sections in this book. Chapters 1–3 are about *making a sourcing decision*. Chapters 4–6 are about *building sourcing competencies*, and Chapters 7–10 are

about *managing sourcing relationships*. Some chapters can be read as a stand-alone body of knowledge (e.g. Chapter 1 and Chapter 10), while others are more connected with other chapters.

Chapter 1 provides a historical perspective on outsourcing and offshoring, the marketplace, and the incentives for firms from around the globe to tap into sourcing opportunities. *Chapter 2* discusses the various types of IT and business processes that could be sourced globally. It also examines the various sourcing arrangements available according to the nature of work outsourced. *Chapter 3* considers the geographical aspect in the sourcing decisions and the factors that both client and supplier companies should consider when deciding on where activity X should be located. *Chapter 4* provides an overview of the vendor's landscape, by examining certain vendor characteristics and the desired core capabilities of the vendor. *Chapter 5* examines the notions of expertise and knowledge in sourcing relationships from both the vendor and client perspectives, and discusses issues related to the knowledge transfer process. *Chapter 6* considers the vendor selection strategy from a client's viewpoint. This includes the evaluation of vendors, the outsourcing arrangements, the retained organization capabilities, and legal issues. *Chapter 7* considers the outsourcing lifecycle and its key activities from a client's perspective. It also provides an overview of key transition issues. *Chapter 8* addresses the key challenges faced by both client and vendor regarding governance of various outsourcing projects. *Chapter 9* focuses on the management of globally distributed teams from a sourcing relationship perspective. Finally, *Chapter 10* reviews recent trends and emerging issues in the arena of global sourcing.

Contents Page

CHAPTER 1: Overview of the global sourcing marketplace

CHAPTER 2: Sourcing models: What and when to outsource/offshore

CHAPTER 3: Country attractiveness for sourcing

CHAPTER 4: Supplier core capabilities and strategies for sustainability and growth

CHAPTER 5: Leveraging knowledge and expertise

CHAPTER 6: The client perspective: Vendor selection strategy, retained management capability and legal issues

CHAPTER 7: The IT outsourcing lifecycle and transition phase

CHAPTER 8: Governance of outsourcing projects

CHAPTER 9: Managing globally distributed teams

CHAPTER 10: Emerging issues in sourcing strategy

CASES

Case 1: Managing IT Outsourcing and core capabilities for business change: The Commonwealth bank of Australia case. *Peter Reynolds, Leslie P. Willcocks*

Case 2: Transforming a human resource function through outsourcing: The BAE Systems - Xchanging enterprise partnership. *Mary C. Lacity, David Feeny and Leslie P. Willcocks*

Case 3: PanGenesis: A creative Costa Rican approach to the persistent IT labor crunch. *Erran Carmel*

Case 4: The giant awakens: Sheen Software Systems considers China for offshore IT Outsourcing. *Erran Carmel*

Case 5: Managing strategic IT-based projects and outsourcing relationships: CLASS - The Norwich Union experience. *David Feeny and Leslie P. Willcocks*

Advanced praise for The Handbook of Global Outsourcing and Offshoring:

'Written by outstanding academics well-recognized for their expertise on the topic, this long-awaited book is a must have to anybody embarking on the process of global sourcing or seeking to enhance their existing knowledge. It provides a comprehensive conceptual overview of three crucial aspects of global sourcing - strategy, governance, and daily management - supplemented by well-researched case studies and lively examples.' - Professor Natalia Levina, NYU Stern School of Business

'In a truly globalized world, customers are looking not just at delivery excellence from service providers, but also global execution capabilities. Outsourcing providers need to look beyond standardized services to include innovation and transformation capabilities, embedded into their offering. This requires providers to focus on the customer's business, understand the issues and then provide solutions. This book provides a very good customer-centric view of how providers need to approach the market.' - Girish Ramachandran, Corporate Director - Strategic Business, Tata Consultancy Services

'Outsourcing and offshoring are commonplace terms, but they're often poorly understood and inexpertly practiced. Yet there is much "out" left in "sourcing," and

even more “off” ahead of us in “shoring.” The Handbook of Global Outsourcing and Offshoring is an intelligent user’s manual – essential reading for those starting out as well as those who find they may have strayed off course.’ - Dr. John Hindle, Senior Manager, Global Marketing, Accenture

“Out of sight but not out of mind” could well be the motto of this book. It is a “must read” for those studying the global phenomenon and in managing outsourcing relationships. The frustrations and rising costs experienced by many can and need to be avoided. The Handbook of Global Outsourcing and Offshoring goes a long way in providing insights drawn from real-world experience in reducing the risks.’ - Professor Robert D. Galliers, Provost, Bentley College.

‘Sourcing optimization is a key strategic lever being deployed by global corporations as they adapt to the challenging business and economic climate. Sourcing practitioners will find this book a useful guide in terms of avoiding the common pitfalls that impact the success of such initiatives. The examples used in the book are free of jargon, drawn from real-life situations and easy to relate to.’ - Srikanth Iyengar, Associate Vice President, Global Head of Business Development - SGS, Infosys Technologies Limited

‘The Handbook of Global Outsourcing and Offshoring is outstanding. It is both insightful and practical. It is useful for companies that are considering outsourcing as a growth strategy as well as those that set out to provide high quality outsourcing services to its clients globally.’ - John Peng, Sr. Vice President, Global Strategic Account iSoftStone Information Service Corp

‘The Handbook of Global Outsourcing and Offshoring provides a broad and in-depth understanding of outsourcing from the client perspective. From the early days of outsourcing, client and provider companies alike have made innumerable mistakes. This handbook provides valuable guidance about what it takes to avoid the pitfalls and outsource successfully. This should be a required reference for any company considering outsourcing.’ - Wendell O. Jones, Outsourcing pioneer and thought leader